BREAKING THE MOULD

Lee Kun-Hee: Innovation for Transformation

Lee Kun-Hee is not only the person primarily responsible for transforming an agricultural firm into the electronics giant, Samsung, but also, in good measure, the person behind Korea’s economic boom.

Without doubt, one of the primary traits which define Lee Kun-Hee is his determination to constantly transform his firm. The latter began as an agricultural conglomerate until becoming the world’s leading producer of computer chips, flat screens and latest generation mobile phones. His vision is perfectly reflected in a letter he dedicated to Samsun clients, employees and friends: “We live in passionate times of digital revolution, characterised by change and constant creative innovation. […] To maintain our leadership in these turbulent times, we have to be able to adapt quickly to the setting around us and transform changes into opportunities. The 20th century was moved by advances in productivity. The new era in which digital technology is transforming all of society will be pushed by creativity and innovation.”

Lee Kun-Hee is not only the person primarily responsible for transforming Samsung from an agricultural firm into an electronics giant but also, in good measure, the person behind South Korea’s economic boom, a phenomenon in which Samsung has played an enormous part. This role is well illustrated by the fact that the group accounts for a fifth of all the country’s exports.

As tends to occur with highly charismatic and influential people, Lee Kun-Hee’s name has not eluded controversy. These include a long legal battle with the company’s main competitor, Apple, embodied by Steve Jobs’ will to fight until the very end and the sentence which found him guilty of tax evasion though he was finally pardoned by the Korean Government in 2010. This pardon was another example of the power Lee Kun-Hee wields in his country where, as a member of the Olympic Committee, many feel he was responsible for Korea having been named to host the 2018 Winter Olympics.

However, his conviction for tax evasion ended up having a much higher price, eventually leading him to resign as President of Samsung. Since 2008 Samsung has been managed by professionals who don’t belong to the family, though the latter has always been in control. Even more so after Lee Jae Yong, Lee Kun-Hee’s son, was named President of Samsung Electronics Ltd last December, the group’s leading company. Many believe that Lee Jae Yong’s new post reflects his intention to soon fill the President’s chair which is still vacant after his father abandoned it.

Finding a leader in each generation capable of adapting the firm to the times is necessary to be able to ensure the firm’s continuity. The Lee family has been able to do so in the past thanks to the model they apply to structure the business group’s governing bodies. It basically consists of a complete symbiotic relationship between the family and the company, in which the family is involved in almost every day-to-day decision. In this case, the family is an added value, providing management talent and institutional relations at every level.
Samsung, one of the world’s largest manufacturers of mass consumer electronic products, began with a small store in Seoul, when Lee Byung-Chul created Samsung General Stores to export fish, vegetables and fruit to Manchuria and Beijing.

As of 1938, Korea grew rapidly with the end of Japanese occupation. In little more than two decades, the country’s per capita income grew from 200 dollars to more than 10,000, becoming one of the leading developing countries.

The founding family would take thirty years to transform its company into Samsung Electronics in 1969, later integrating with Samsung Semiconductors in 1988 and becoming a crucial part of the most influential conglomerate in Korea.

With the Asian economic crisis in 1997, however, Samsung Group’s balance sheet suffered dramatically, with a debt-equity ratio of nearly 4:1. The company’s income fell sharply and, without external financing, Samsung’s investment plans were no longer sustainable.

But, as had occurred in 1974 when the company detected an opportunity in the semiconductor market, the 1997 crisis provided a new vision to Samsung. The company decided to optimise and modernise its competitive strategy and business model based on the mass production of copies to independently developing the brand based on digital technology.

This period was also characterised by a statement associated to Lee Kun-Hee: “Excepting our wives and children, everything has to change.” In little time, Samsung sold 10 subsidiaries and, breaking with the Korean tradition of providing long-term employment, it dismissed more than 30,000 workers. It was an exercise in the characteristics which have defined Lee Kun-Hee’s leadership based on entrepreneurial innovation and a great ability to manage through foresight and determination. This sacrifice transformed the group into the worldwide leader in the electronics industry, currently employing more than 200,000 people around the world.

Author: Boris Matijas, Family Business Transformation